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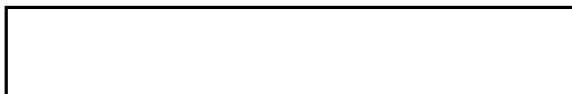


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State Department review completed

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LIBYA: The alleged discovery of a plot against the regime and President Qadhafi's five-day absence from public view have given rise to rumors of serious strains within the Libyan leadership. No unusual military or security activity has been observed in Tripoli, and Qadhafi reappeared yesterday--apparently in firm control.

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The defection of an RCC member would be a serious jolt for Qadhafi and his colleagues. Although Najm has never been an important or respected member of the council and has on occasion withdrawn completely from political life in Tripoli, the fiction of his membership in the RCC has always been maintained.

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The discovery of the plot and the lack of positive results from his meeting with Tunisian President Bourguiba in Geneva last week apparently caused Qadhafi to retreat into temporary seclusion. Although Qadhafi emerged yesterday to receive a visiting Argentine delegation, his brief withdrawal may indicate that another round of his resignation threats is in the offing. Qadhafi has been deeply disappointed

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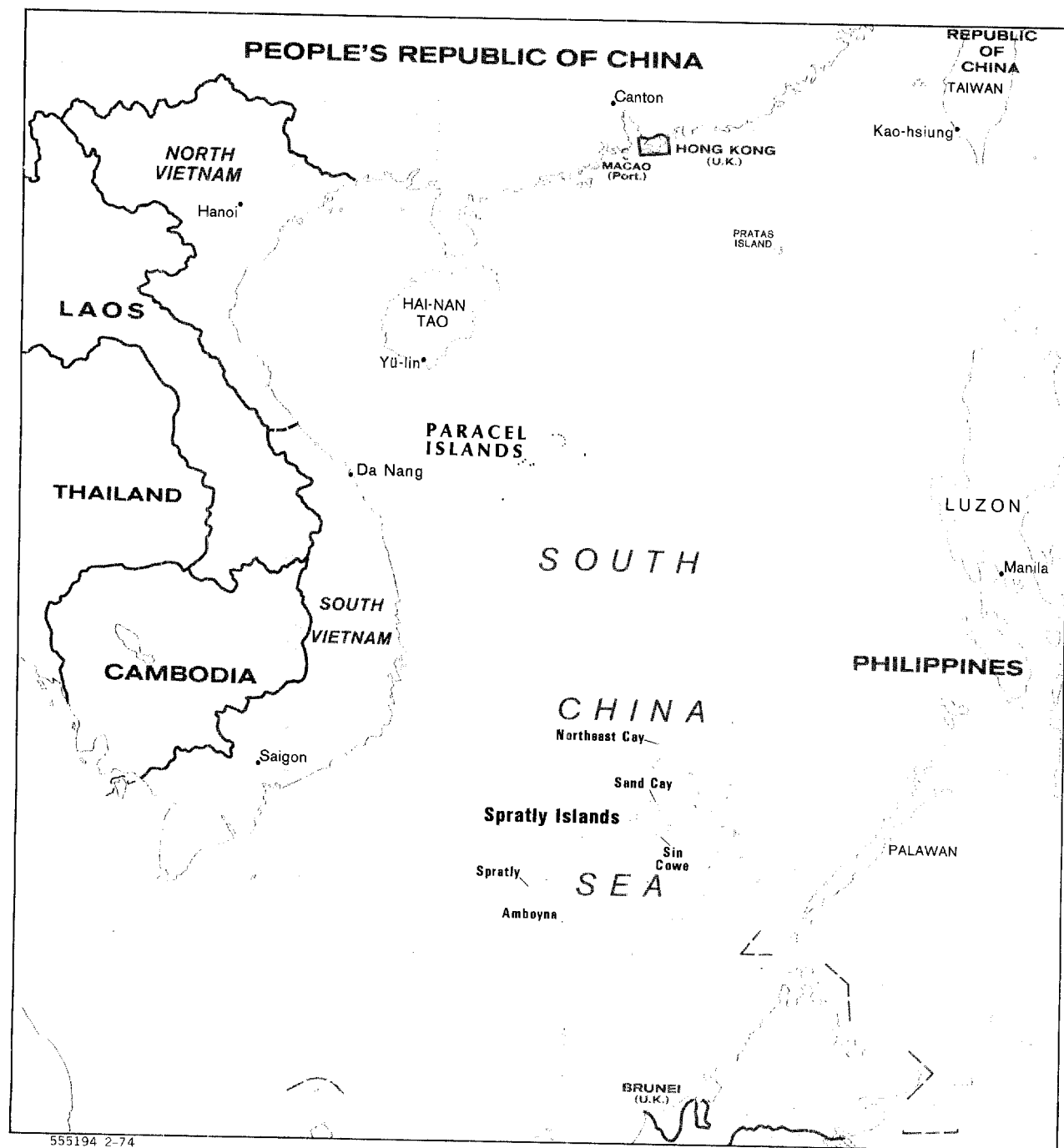
by the course of events in the Middle East struggle, by the failure of his Tunisian merger initiative, and by his troubles at home. In the past, Qadhafi's threats to retire have caused a spate of rumors about divided loyalties and political differences among the 11 members of the RCC.

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SOUTH VIETNAM: Saigon has sent a naval task force to occupy five additional islands in the Spratly group. The expedition consists of three ships carrying 136 regional force soldiers and assorted equipment.

According to press reports, the South Vietnamese Navy began to land troops at dawn today without incident. The commander of the task force had been told not to engage military forces that might be in the area and not to attempt landings on any occupied islands.

This move is an effort to recoup prestige lost when the Chinese took the Paracels ten days ago. Saigon also wants to make clear its claim to sovereignty over the Spratlys and to oil exploration rights. Last September the South Vietnamese incorporated several of the Spratly Islands--located in the South China Sea about 300 miles east of Saigon and about 450 miles south of the Paracels--into the local administration of Phuoc Tuy Province. About that time, Saigon set up a 64-man force on one island and planted markers on some of the others.

Peking's claim to the Spratlys, unlike the Paracels, has not been reinforced by a permanent presence, and the Chinese will find it more difficult to contest Saigon's current maneuver with military force. To do so, Peking would have to move naval units into the area and would have to operate beyond the range of its fighter aircraft and at the outer range of its tactical bombers.

Other countries which claim the Spratlys, such as the Philippines and Nationalist China, have military garrisons on some of them. The Philippines have reported they have marines on Northeast Cay, one of the islands Saigon has set out to occupy, but the other four are believed unoccupied.

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CHINA-USSR: Peking is engaged in a vitriolic propaganda campaign against Moscow, perhaps in part for domestic reasons.

In the past several weeks, the Chinese have stepped up their attacks on the Soviets, accusing them of "fascist atrocities," claiming that Moscow was administering a police state, and asserting that the USSR was spying on China and attempting to meddle in Chinese affairs. The current round of attacks began with a blast on conditions within the Soviet Union, occasioned by the publication in the West of Solzhenitsyn's Gulag Archipelago. Soon afterward, the Chinese expelled five Soviet diplomats from Peking on espionage charges, the first such action since the Cultural Revolution. Peking drew special attention to this incident by publishing a lurid account of the case and followed this account with a harshly worded official note protesting Moscow's retaliatory action of "expelling" a Chinese diplomat already on his way home. More recently, Ambassador Tolstikov was involved in a minor car accident which he--as well as much of the diplomatic community in Peking--apparently considers a deliberate provocation.

Running through the Chinese polemics on the "spying" incident are charges that Moscow not only is conducting espionage against China, but that it is attempting to fish in troubled Chinese political waters, as it has in the past by "backing" such renegade Chinese leaders as Liu Shao-chi and Lin Piao. In the past ten days, these themes have also been injected into the "anti-Confucius campaign," an ongoing political movement in China which had previously focused primarily on domestic issues and which many Chinese as well as foreign observers believe is connected to disagreements within the Chinese leadership.

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This development raises the possibility that the current, obviously orchestrated, accusations of Soviet meddling in Chinese domestic affairs may in part be designed to discredit elements within the Chinese political hierarchy. In the past several years, Chinese officials at all levels have shown great sensitivity that Moscow might exploit disagreements within Peking's leadership for its own ends, and the regime might at this point be preparing to make specific accusations along these lines. In this connection, a recent remark by Vice Foreign Minister Chiao Kuan-hua that Peking has "bigger fish to fry" in relation to the "spying" incident may be significant.

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USSR: The Soviets are taking a negative line on the MBFR talks, probably for tactical reasons. Moscow's chief delegate at Vienna, Khlestov, has told a US representative that he and his wife will take a sight-seeing trip during the next few days. Khlestov justified the excursion by remarking that "in view of the pace of the negotiations," there was time to make the trip. He also raised the question of an Easter recess and even a summer recess, implying that the Soviets are anticipating prolonged negotiations.

The Soviets apparently do not feel the need to make any conciliatory gesture in the near future. The Soviets introduced a formal proposal at the last session and entered the current round with the attitude that it was up to NATO to make the next move. To a lesser degree, the Soviets may also be stalling for time until they can coordinate new positions with their Warsaw Pact partners.

Khlestov also made a strong pitch for private US-USSR discussions. He was apparently trying to convey the impression that the presence of his allies would restrict Soviet freedom of maneuver. This might be one factor behind the Soviet desire for bilateral talks, but Moscow's main purpose is probably to create mistrust and disarray in the NATO camp.

Meanwhile, Brezhnev, in his recent speech in Havana, questioned the sincerity of some Western participants in the talks. Although he merely repeated the concerns expressed by Soviet MBFR delegates and commentators, Brezhnev's remarks were more negative than his previous public statements on MBFR.

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Mock-up of the Mirage G8A at the Paris Air Show

FRANCE: The French have acknowledged publicly that they are developing a nuclear-tipped, air-to-surface missile. In making the announcement, Minister of the Armed Forces Galley stated that the missile will be equipped with a 500-kiloton nuclear warhead, and that it will have a range of 50 to 90 miles.

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Press sources quote Galley as saying that the first prototype of the new aircraft--designated the G8A--has been ordered. It is scheduled to become operational toward the end of the 1970s.

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INTERNATIONAL MONETARY DEVELOPMENTS: European currencies recorded strong gains against the dollar in hectic late trading on the London exchange yesterday. The mark, guilder, and Belgian franc gained over 1 percent compared with their Wednesday domestic closings and, at one point, the French franc traded 2.5 percent above its Paris closing rate.

The dollar's decline reflects renewed European interest in borrowing in the US, following the easing of US and European capital controls. Continuing expectations of a decline in the price of oil also played a role. The franc's particularly strong showing followed Paris' announcement that it would float a \$1.5-billion Eurodollar loan to help ease its balance-of-payments position.

Because most of the pressure against European currencies reflects market concern over the balance-of-payments effects of increased oil prices, continuing indications that these prices will come down will cause a further strengthening of those currencies relative to the dollar. Further gains should also result as more European firms announce they are looking to the US as a source of long-term capital.

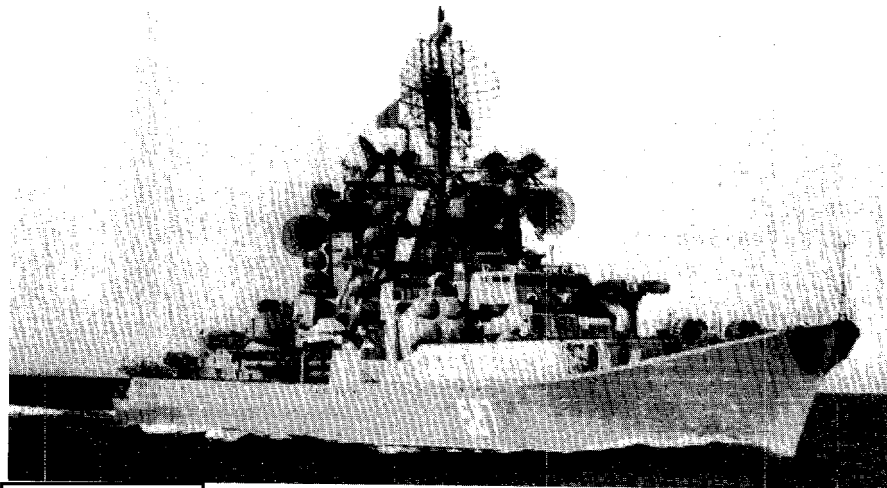
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**Kresta II Class**



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USSR: The Soviets apparently are sending a Kresta II class guided-missile frigate to the Pacific Fleet for the first time. The newly constructed ship, the Marshal Voroshilov, left the Baltic Sea on January 21 and is now in the vicinity of the Canary Islands, accompanied by two auxiliaries.

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Hungary - East Germany: East German Premier Sindermann began a previously unannounced visit to Budapest on January 31. The composition of his delegation suggests that the official talks may well focus on bilateral economic relations. Sindermann's arrival ties in with earlier indications that a foreign VIP would soon come to Hungary.

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Costa Rica: Voters will cast their ballots February 3 for a president, two vice-presidents, all 57 deputies to the legislature, and municipal officers throughout the country--all to serve a four-year term. Costa Rica has a long record of honest and orderly elections. Most observers expect that Daniel Oduber, the presidential candidate of the governing party, will gain the 40-percent plurality necessary to prevent a runoff in April.

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

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